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TREASURY PLEASE PASS TO FEDERAL RESERVE
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TAGS: [ECON](#) [EFIN](#) [ELAB](#) [EUN](#) [AU](#)

SUBJECT: AUSTRIA'S 2008/2009 ECONOMIC OUTLOOK - GROWTH SLOWING, BUT
ABOVE EURO-ZONE AVERAGE

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Summary

1. Austria's leading economic institutes - the Austrian Institute for Economic Research (WIFO) and the Institute for Advanced Studies (IHS) -- have announced that in 2007 Austria's GDP grew at a rate of 3.3-3.4%. However, with a slowdown in the fourth quarter and with slower global growth on the horizon, both institutes are revising downward their 2008 growth forecasts to 2.2-2.4%. Exports will continue to drive growth, while consumer spending will remain weak. Projections for 2009 are for GDP growth of 2.0-2.5%. In 2008/2009, Austria's growth rate will be higher than the Euro area average. Austria's 2007 unemployment rate of 4.3% will not decline further in 2008/09. The public sector deficit improved to 0.6% of GDP in 2007. However, WIFO and IHS criticized rising government spending and the GoA's failure to balance the budget over the cycle. End Summary.

2007 Much Better Than Expected

2. The Austrian Institute for Economic Research (WIFO) and the Institute for Advanced Studies (IHS) recently presented revised growth figures for 2007. Both institutes highlighted that the 2007 growth rate of 3.3-3.4% was much higher than originally expected. Exports continued to propel GDP growth, sparking robust investment spending. However, consumer spending, in contrast to previous periods of high growth, remained sluggish. The consumer inflation rate in 2007 was 2.1-2.2% and the unemployment rate was 4.3%.

2008 and 2009 - Less Dynamic Growth

3. The institutes also presented a slightly downgraded forecast for 2008 and an initial forecast for 2009. Both institutes revised downward their 2008 growth forecasts slightly to 2.2-2.4%. The forecast assumes continued strong export growth, but cyclically weaker investment and growth in consumer spending of less than 2%. Austria continues to benefit enormously from high growth rates in Central and Eastern Europe (CEE). Nevertheless, both institutes acknowledged that export opportunities in the CEE would not fully compensate for the negative effects of an expected slowdown in the U.S. economy. Slower global GDP growth and a strong Euro should reduce Austrian export growth in 2008/2009 to 6.3-6.6%, compared to export growth of 7.0-8.0% in 2006/2007.

¶4. Initial projections for 2009 are for GDP growth of 2.0% (WIFO), 2.5% (IHS), and 2.3% (Austrian National Bank). The WIFO believes that continued weakness in the U.S. economy and slowing growth in the EU justify a lower GDP figure for 2009. The IHS, on the contrary, is more optimistic that the U.S. economy will begin to improve by the second half of 2008, followed by stronger growth in ¶2009. Thus, the IHS does not expect a further slowing of the Austrian economy in 2009.

Assumptions for Growth Forecasts

¶5. The institutes based their 2008/2009 forecasts on the following assumptions:

- U.S. economic growth of 1.6-2.3% in 2008 and 1.7-2.7% in 2009;
- Euro area growth of 1.9-2.0% in 2008 and 1.7-2.3% in 2009;
- EU-27 growth of 2.3% in 2008 and 2.1-2.5% in 2009;
- German growth of 1.8-2.0% in 2008 and 1.8-2.3% in 2009;
- oil prices of \$85 per barrel in 2008 and \$80-88 in 2009; and
- dollar/Euro exchange rates of 0.66-0.70 in 2008 and 0.65-0.72 in ¶2009.

Risks: U.S. Economy, Financial Crisis, Exchange Rates

¶6. According to both WIFO Director Karl Aiginger und IHS Deputy Director Ulrich Schuh, despite slower growth in 2008, there are no indications of a serious slowdown or even a recession. However, the 2008 forecasts include the following downside risks:

- a "hard landing" for the U.S. economy;

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- continued turbulence on international financial markets;
- a further appreciation of the Euro vis-a-vis the dollar, as well as against the yen and yuan; and
- accelerating consumer price inflation.

Unemployment Stable at 4.2-4.3%

¶7. Robust economic growth created approximately 64,000 new jobs in 2007, with an unemployment rate of 4.3%. WIFO noted that continued growth in the supply of labor prevented a more pronounced drop in the unemployment rate. New workers entering the labor market filled the bulk of additional labor demand, with unemployed accounting for only 25% of the total. In 2008 and 2009, the unemployment rate should remain at 4.3%. About half of the labor demand in 2008/09 will be filled by additional foreign labor.

Deficit Down, Budgetary Performance Could Be Better

¶8. Strong economic growth in 2007 produced much higher than expected tax revenues, particularly higher corporate tax and VAT revenues. Given the higher revenues, WIFO and IHS expect the total public sector deficit to be only 0.6-0.7% of GDP. Aiginger and Schuh noted that the GoA has not made sufficient progress in balancing the budget over the cycle. They criticized the new GoA spending, as well as a lack of sufficient budgetary discipline on both the federal and provincial levels. According to the Federal Debt Committee, the public sector debt level will fall from 61.7% of GDP in 2006 to 59.9% in 2007 and further to 58.4% in 2008.

¶9. Statistical Annex

Austrian Economic Indicators
(percent change from previous year,
unless otherwise stated)

	WIFO project. 2008	IHS project. 2008	WIFO project. 2009	IHS project. 2009
Real terms:				
GDP	2.2	2.4	2.0	2.5
Manufacturing	3.3	n/a	3.0	n/a
Private consumption	1.9	1.8	1.9	1.9
Public consumption	3.0	3.0	1.0	-0.5
Investment	2.5	3.0	1.9	2.8
Exports of goods	6.3	6.6	6.0	7.4
Imports of goods	6.2	6.8	5.9	6.2

Nominal Euro billion
equivalents:

GDP	285.3	284.0	296.7	296.0
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Other indices:

GDP deflator	2.3	2.0	2.0	1.7
Consumer prices	2.6	2.4	2.1	1.6
Unemployment rate	4.2	4.3	4.3	4.3
Current account (in percent of GDP)	3.3	n/a	3.4	n/a
Exchange rate for US\$ 1.00 in Euro	0.66	0.70	0.65	0.72

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